



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

09 JUL 2001

SAAL-RP

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Contractor Cost Sharing

The purpose of this memorandum is to ensure compliance with the enclosed Department of Defense (DoD) Memorandum entitled "Contractor Cost Sharing".

In today's environment of reduced defense spending and fewer new program starts it is shortsighted to require contractor investment in Defense research and development contracts. Instead, we should permit contractors to earn a reasonable return on these contracts in exchange for good performance.

Your full compliance is essential to ensure that contractors are not encouraged or required to supplement DoD appropriations by bearing a portion of defense contract cost, whether through use of their internal research and development funds or profit dollars.

Point of contact for this memorandum is LTC Anthony R. Jimenez, DSN 664-7158 or commercial (703) 617-7158; his e-mail is [anthony.jimenez @saalt.army.mil](mailto:anthony.jimenez@saalt.army.mil).

Kenneth J. Oscar
Acting Army Acquisition Executive

Enclosure

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ACQUISITION AND
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THE UNDER SECRETARY OF DEFENSE
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MAY 16 2001

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Contractor Cost Sharing

In order to ensure that the companies the Department of Defense does business with are able to provide innovative, technologically excellent weapons and equipment at affordable prices, we must be concerned about the financial health of the defense industry. Financially sound companies are able to attract the resources and talent necessary to provide best value solutions to warfighters and taxpayers alike.

One of the ways to ensure these companies remain financially sound is to consider carefully the degree of investment they are making in defense programs. In today's environment of reduced defense spending and fewer new program starts, it is short-sighted to require contractor investment in defense research and development contracts. Instead, we should permit contractors to earn a reasonable return on these contracts in exchange for good performance. The only exception to this policy would be unusual situations where there is a reasonable probability of a potential commercial application related to the research and development effort.

Contractor investment in defense programs may take the following forms:

- Use of contractor independent research and development (IR&D) funds to subsidize defense contract research and development.
- Cost ceilings that in essence convert cost-type contracts into fixed-price contracts.

Unreasonable capping of annual funding increments on research and development contracts.



Enclosure

- Award of development contracts at prices that are known to be less than the contractors' probable costs of performance.

None of these is an acceptable practice. Contractors should not be encouraged or required to supplement DoD appropriations by bearing a portion of defense contract costs, whether through use of their IR&D funds or profit dollars. I have asked my staff to carefully examine the acquisition strategy and execution for ACAT I programs to ensure that contractor cost sharing is not included, and to revise the DoD 5000 series directives to more completely incorporate this policy.

I believe this is a particularly important issue, and I expect the full support of the Military Departments and Defense Agencies to ensure that contractor investment is curtailed.

A handwritten signature in dark ink, appearing to read "E. C. Aldridge, Jr.", with a stylized flourish at the end.

E. C. Aldridge, Jr.